



MEMORANDUM

To: Ann Bishop and Judith Whitney
EEU E-mail Service List

From: Vermont Gas Systems – Scott Harrington and John St.Hilaire

RE: Response to Board Memorandum of October 16, 2009 regarding Workshop on EEU
Avoided Costs and Comment Deadline

Date: November 10, 2009

Vermont Gas Systems, Inc. ("VGS") provides this memorandum in response to the Board's memorandum dated October 16, 2009 regarding the workshop on EEU avoided costs and comment deadline. That memorandum outlined the Department of Public Service ("DPS") recommendations on avoided costs for the EEU, the intent to discuss avoided costs with VGS, the recommendation to leave the environmental adder unchanged, and a workshop on November 3, 2009 to review the AESC study results.

VGS and the DPS have discussed the avoided costs in the AESC study. While the avoided wholesale commodity costs in the report look appropriate, there are significant structural differences between the avoided costs in this report and those used by VGS in its screening tool. Most significantly, VGS' avoided costs include avoided on-system transmission. The AESC study does not explicitly calculate avoided transmission system expansion and therefore the avoided costs are significantly different than those currently in use by VGS. Adopting the AESC avoided costs at this time would unnecessarily disrupt VGS' programs. Instead, VGS and the DPS have agreed to use the time period between avoided costs studies to jointly review VGS' avoided cost model to make sure the structure and cost components are still appropriate.



At the November 3, 2009 workshop VGS was asked to provide updated avoided costs for 2009 and file comments regarding how VGS' externality adder compares to the externality adder used in the AESC study. The following are VGS' first year avoided costs for 2008 and 2009 and the associated annual escalator, more detailed information of the derivation of these avoided costs are attached to this filing.

	2008	2009	% change
Peak day	\$246.83	\$244.06	(1.1%)
Peak Period	\$11.84	\$12.00	1.3%
Shoulder period	\$11.80	\$6.15	(47.8%)
Off-peak period	\$10.48	\$5.25	(49.9%)
NG annual escalator	0.4%	1.8%	

VGS is currently evaluating the end use natural gas externality adder pricing and methodology clarification submitted by AESC on November 9, 2009. At this time, VGS is only able to provide the externality adders used in VGS' screening tool.

Natural gas externality adder = \$1.93/MMbtu

Propane externality adder = \$2.33/MMbtu

Please let us know if you have any questions regarding this memorandum.